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Practicing CPA, vol. 18 no. 1, January 1994

American Institute of Certified Public Accountants (AICPA)

The Practicing CPA

JANUARY 1994

Published for All Local Firms by the AICPA Private Companies Practice Section

PRE-EMPLOYMENT TESTS CAN IMPROVE THE HIRING PROCESS

Your firm makes a considerable commitment to recruiting and interviewing junior accountants. Your goal is to hire the best people available so you can provide clients with high-quality services. To attain such a goal, CPA firms are implementing new recruiting techniques such as pre-employment testing. Human resources managers have found that better employees usually have high levels of cognitive ability and conscientiousness. Pre-employment tests typically measure these characteristics.

Cognitive ability

Studies show that individuals with high cognitive ability tend to learn new material more quickly than those with lower levels, are better performers in the key areas of their jobs, and are more likely to progress to managerial positions at their organizations. Thus, staff accountants with high cognitive abilities should learn more at training sessions, provide superior analyses when participating in audits or preparing tax returns, and progress to senior and manager positions more quickly and more often than accountants with lower cognitive skills.

Conscientiousness

Conscientious people usually strive to achieve high standards and are dependable. Studies suggest that individuals with high levels of conscientiousness tend to perform better at the key parts of their jobs, help other employees more often, comply with organizational rules, have higher attendance rates, and work more efficiently. These traits are especially important for seniors because they must help develop the skills of the more junior staff and ensure that appropriate procedures are followed.

Because cognitive ability and conscientiousness are important determinants of employee quality, it would seem to make sense to measure recruits' levels of both characteristics as a part of the hiring process. Despite compelling reasons to use pre-employment tests, many accounting recruiters resist modifying their existing selection procedures.

Reasons firms do not use pre-employment tests

One reason for resistance is that many accounting recruiters believe interviews to be as good or better selection devices than tests, particularly for predicting which applicants will be superior performers. Nevertheless, studies show cognitive ability tests usually have better predictive results than interviews. Studies of conscientiousness are not as conclusive, but early trends suggest similar results.

A second reason for resistance might be that accounting recruiters believe choosing recruits from accounting honor societies or with high grade point averages is a good substitute for measuring these two characteristics. If this were true, one would expect grades to be good predictors of future job performance, but research shows this not to be true. In addition, grades are poor substitutes for

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tests because they are not comparable from school to school. In contrast, test scores are directly comparable for all individuals.

These comments are not meant to imply that interviews, honor society memberships, and good grades should not be included in a selection system. Indeed, the best selection system would incorporate both methods. But incorporating tests into your selection system requires planning and thought. In this regard, you might find the following plan of action helpful.

Analyze the job and choose appropriate tests

First, list the important tasks of staff and senior accountants, then decide which ability or characteristic (including cognitive ability and conscientiousness) would help them perform these duties. Next, choose a test for each trait you have listed.

Cognitive ability can be measured using the Watson-Glaser Critical Thinking Appraisal (available from the Psychological Corporation, 555 Academic Court, San Antonio, Texas 78204), parts of the General Aptitude Test Battery (available at many state employment offices), or the Wonderlic Personnel Test, also available from the Psychological Corporation. Conscientiousness can be measured using parts of the 16PF, I.P.A.T., P.O. Box 1188, Champaign, Illinois 61824, or the Personal Characteristics Inventory. While such choices appear difficult, there are a number of places to turn for help, including state employment agencies (some will even administer measures of cognitive abilities), nearby universities, and human resources management consultants.

Firms that wish to test during the office visit may choose to skip the following three steps. We urge you to read the material for background, however.

Decide whom to test

Some firms may wish to pre-screen recruits based on their résumés; however, we would suggest testing a fairly large number of individuals. This may result in finding candidates who would not normally be considered, but who have the "right" characteristics. For example, a member of the accounting club may not have a high grade point average but may have worked twenty hours a week at a job. Such a person may have high levels of both cognitive ability and conscientiousness and possess outstanding potential.

The comparatively low cost of testing materials makes it feasible to test large numbers of recruits. The cost of materials for administering the Watson-Glaser cognitive ability test is about $4 per test for the first thirty-five recruits, and drops to less than $2 per test for additional recruits.

Tests are also cost-effective for the following reasons. First, the knowledge gained about each recruit from the tests could allow firms to interview fewer individuals and use fewer interviewers. This could reduce recruiting costs. Second, using tests will raise the quality of the accountants hired. The value to a firm of their better performances over the following year or so almost always outweighs the cost of hiring superior personnel.

Administer the tests

Make arrangements with the university of choice to test the recruits. We believe most university placement offices and accounting departments will be willing to schedule such sessions to help their graduates obtain jobs in today's difficult economic environment. Attending firm members need to be briefed on the importance of following standardized testing procedures. Actual testing of the recruits will take one or two hours. Often, clerical personnel can be trained to score the tests and provide almost immediate feedback of a recruit's abilities. As an alternative, if feedback is not needed for a week or so, test publishers frequently offer computerized scoring services.

Select recruits for campus interviews

Selection could be based on test scores, starting with the highest. One way to do this would be to construct a table with cells for high, medium, and low scores for each test, and schedule recruits for interviews as follows. First, individuals listed in the high cognitive ability and high conscientiousness cells would be scheduled. Then, if there were still a

The Practicing CPA (ISSN 0885-6931), January 1994, Volume 18, Number 1. Publication and editorial office: 1211 Avenue of the Americas, New York, NY 10036-8775. Printing and mailing paid by the private companies practice section (PCPS) of the AICPA division for CPA firms. Opinions of the authors are their own and do not necessarily reflect policies of the Institute.

Editor: Graham G. Goddard

need to interview more recruits, those with one high and one medium test score could be scheduled.

Another consideration is how to use résumés in the new selection system. Since test scores are more reliable than judgments made from résumés, we would suggest résumés primarily be used to generate interview questions. Nevertheless, recruiters may want to add to the interviewing schedule the names of one or two individuals who have lower test scores but outstanding résumés.

Conduct campus interviews
We strongly recommend firms use an interview format such as the Behavior Description Interview. If feasible, the person who determines which recruits should be interviewed (based on test scores), should not conduct the interviews. This ensures the information gathered during the interview is unbiased by previous test information.

Conduct office interviews
The final step is to ask recruits with the best potential to visit the office. Local firms may choose to test recruits at this stage. Either of two strategies may be used to extend offers. The first might be to extend an offer to the individual with the highest test scores, while the second strategy might be to consider both interview and test information. Studies show the first method to be the better one.

We suggest firms keep records of all test scores and interview ratings. A later analysis of this information will help in evaluating the recruiting process and suggest where improvements might be needed.

All in all, we believe tests of cognitive ability and conscientiousness provide useful information for recruiters of accounting personnel. Their proven relationships to future job performance suggest pre-employment tests should be part of every firm's recruiting system. ☑

—*by* **Philip L. Roth, Ph.D,** *Department of Management, Clemson University;* **Jeffrey J. McMillan, Ph.D.;** *and* **Patricia G. Roth, CPA,** *School of Accountancy, College of Commerce and Industry, Clemson University, Clemson, South Carolina 28534*

Peer Review Scoping Standards

The private companies practice section peer review committee of the American Institute of Certified Public Accountants division for CPA firms recently announced a new interpretation of peer review scoping standards. The new guideline encourages peer review teams to select engagements for review based on their relative degrees of risk, as opposed to selections based on engagement hours.

The peer review committee suggests that team captains prepare an additional memorandum, as part of their summary review memorandum, that documents the planning considerations and procedures used to choose offices and engagements for review. This helps the AICPA technical reviewers better understand the rationale behind the review team's selections.

For more information, call the AICPA quality review division, (201) 938-3030. Callers should respond to the recorded prompts in order to be directed to the appropriate party. ☑

Telemarketing: Warm Calling Works

A growing number of firms are using telemarketing as a tool to generate new business. Some take an aggressive approach, wherein cold calls are made to purchased lists with the objective of setting up appointments with interested parties. Following is a less aggressive approach to telemarketing that may, nevertheless, produce handsome results.

Retain a telemarketer or request an in-house marketing professional to make warm calls to potential clients. These are calls to people who have had some contact with your firm. They may have attended a firm seminar, for example, in which case the conversation may begin with a few questions on their reactions to the seminar. Or perhaps they requested a pamphlet or checklist, which would provide an opportunity to ask for feedback on the material sent. The objective here is to begin a low-key dialogue to gain information about the prospect and to establish direct contact.

Should the called party appear willing to continue speaking, the telemarketer may explore ways in which the CPA firm might be of further service. This could include mailing additional material on specific subjects, newsletter articles, or information on upcoming seminars. Depending on the reception by the called party, further questions could deal with accounting services.

If at any time the called party makes it clear that the conversation has gone far enough, the telemarketer should politely thank the person for his or her time, and terminate the call with a suggestion that the parties remain in touch.

The called party should not feel pressured in any way. Rather, the low-key conversation should be viewed as part of a long-term process to keep communication channels open and to gather information. Indeed, follow-up calls should be planned on a periodic basis. The ultimate objective is to have prospective clients feel comfortable about inviting someone from the firm to discuss their accounting needs when they are ready to do so. ☑

— *by* **Herbert Kaplan,** *Ridgefield Consulting Group, Inc., 501 Madison Avenue, Suite 2300, New York, New York 10022, tel. (212) 486-8680, FAX (212) 753-3829*

Two Important Alerts Provided to PCPS Members

The AICPA's Audit Risk Alerts are particularly helpful for planning audits—an important part of the process. Industry-specific Alerts (see the November issues of the *Journal of Accountancy*, p.59, and *The CPA Letter*, p.3.) contain concise information on current developments that might affect clients, and help auditors control audit risk by focusing their attention on matters that may require special consideration.

Audit Risk Alert—1993

A general update on economic, regulatory, accounting, and auditing matters, *Audit Risk Alert—1993* discusses

Implications of the current economic environment. Explains, among other things, why obtaining management's representations about its plans is not enough to allay doubts about going-concern, and discusses why an explanatory paragraph in the auditor's report is not a substitute for loss recognition.

Regulatory developments. SEC literature on environmental contingencies and liabilities is addressed, various factors that may indicate an increased risk of exposure to environmental liabilities are described, and guidelines on providing access to or photocopies of workpapers to regulators are presented.

New auditing and attestation pronouncements. Lists an overview of recent pronouncements including reports on service organizations, reporting on internal control, and a summary of key points in SSAE no. 3 on compliance attestation.

Audit communication and reporting issues. Includes reminders about requirements of a number of pronouncements, including suggestions about what should be and should not be done in agreed-upon procedures engagements.

Audit problems. Describes, among other things, the professional standards that discuss auditors' responsibilities regarding management fraud, lists incentives and opportunities for management fraud, and discusses the need to carefully review significant and unusual transactions or events.

Recurring peer and quality review comments. Discusses evaluating audit risk and materiality, documenting understanding of the internal control structure, the need for sufficient workpapers, and much more.

Lessons from litigation. Provides guidance on working paper retention policies and client acceptance/retention policies.

Compilation and Review Alert—1993

This nonauthoritative practice aid designed to help accountants perform their compilation and review engagements, was issued last month by the Auditing Standards Division. The Alert clarifies certain existing professional standards, suggests ways of implementing Statements on Standards for Accounting and Review Services (SSARS) in unusual circumstances, points out pitfalls that frequently occur in compilation and review engagements, and summarizes new professional and accounting pronouncements that may affect compilation and review engagements. Following are some topics covered in the Alert:

Implementing Statement on Standards for Accounting and Review Services no. 7. SSARS no. 7 is effective for periods ending after December 15, 1993, and contains provisions that change compilation and review practice. This article summarizes the provisions of SSARS no. 7 and presents samples of compilation and review reports incorporating the new wording established by SSARS no. 7.

Maintaining Independence When Providing Payroll Services. CPAs may be asked to perform payroll preparation services for compilation or review clients when the employee responsible for payroll is away or when management elects to have this service performed outside the organization. This article presents factors a CPA should consider when providing payroll services to a client in an engagement that requires independence.

Engagement Letters. In today's legal environment, liability claims against a CPA firm are always a concern. An engagement letter may help to minimize liability because it documents the details of the agreement between the CPA and the client. This article describes the elements that ordinarily should be included in an engagement letter.

GAAP for Compiled or Reviewed Financial Statements. Although there are different reporting and performance standards for compilation, review, and audit engagements, the accounting principles to be followed in compiled and reviewed financial statements are the same as those in audited financial statements. This article identifies and describes the publications that contain pronouncements included in levels *a* through *d* of the GAAP hierarchy (must know GAAP).

Copies of the *Audit Risk Alert—1993*, product no. 022099, and *Compilation and Review Alert—1993*, product no. 060666, are being provided directly by PCPS to its member firms as a benefit of PCPS membership. Call the AICPA order department, (800) TO-AICPA. Ask for operator PC. ☑

Your Voice in Washington

AICPA pushed S corporation reform bill introduced in Senate

A bill pushed by the AICPA to reform the laws under which subchapter S corporations operate was introduced in the U.S. Senate on November 19, 1993. It would assist more than 1.5 million of the nation's small and family-owned S corporations by opening up new sources of investment and simplifying the rules under which they operate. These S corporations now represent more than 42 percent of all our nation's corporate returns, and more than 11 percent of corporate net income.

The AICPA, the American Bar Association's (ABA) Committee on S Corporations, and the U.S. Chamber of Commerce collaborated with the measure's sponsors, Senators David Pryor (D-AR) and John Danforth (R-MO), for over a year to develop the bill. Many of the provisions in the S Corporation Reform Act of 1993, S. 1690, were drawn from the reform recommendations made by the AICPA, the Chamber, and the ABA.

Among S. 1690's provisions are the following:

- ☐ Increase the allowable number of shareholders from thirty-five to fifty;
- ☐ Aggregate members of one family so they can be counted as one shareholder;
- ☐ Permit tax-exempt organizations, such as pension funds (including ESOPs) and charities, to own shares of S corporation stock;
- ☐ Expand "safe harbor debt" to permit convertible debt, and permit venture capitalists and lending institutions to hold safe harbor debt;
- ☐ Expand the types of trusts that can own S corporation stock;
- ☐ Remove tax traps by permitting the Secretary of the Treasury to treat invalid elections as effective and by providing for automatic waivers of certain inadvertent terminations;
- ☐ Change the S corporation laws so that S corporation shareholders are treated the same as owners of regular corporations, with respect to fringe benefits.

Passage of S. 1690 is considered possible by Senators Pryor and Danforth, as part of a tax bill later this year. Of importance, the Clinton Administration has already expressed interest in S corporation reform, and a number of the bill's provisions were included in a tax simplification bill introduced in the House of Representatives in late 1993. The AICPA also will continue its campaign to modernize subchapter S. ☑

Conference Calendar

Personal Financial Planning Technical Conference
January 10–12—The Hyatt Regency Westshore, Tampa, FL
Recommended CPE credit: 21 hours

Conference on Current SEC Developments
January 11–12—Grand Hyatt, Washington, DC
Recommended CPE credit: 16 hours

To register or for more information, call the AICPA meetings and travel department, (201) 938-3232.

Dates Set for MAP and Small Firm Conferences

The AICPA management of an accounting practice committee has announced the dates and locations of this year's national practice management and small firm conferences. All four conferences will offer special discounts for early registration.

- ☐ **The AICPA National Practice Management and Firm Administration Conference** will be held on July 25–27 at the Loews Coronado Bay resort in San Diego, California. The program is designed for managing partners, partners, and firm administrators from local and regional firms with average gross fees of \$1 million to \$3 million.
- ☐ **The AICPA National Practice Management and Marketing Conference** will be held on October 3–5 at the Westin Peachtree Plaza Hotel in Atlanta, Georgia. The program is designed for managing partners, partners, and marketing directors from local and regional firms with average gross fees of \$1 million to \$3 million.
- ☐ **The AICPA National Small Firm Conferences** will be held on August 17–19 at the Sheraton Hotel and Towers in Seattle, Washington, and on November 9–11 at the Marriott Hotel in New Orleans, Louisiana. The program is designed for sole proprietors and partners from small firms with gross fees of up to \$1 million.

Brochures on the conferences will be mailed in the Spring. Watch for additional information in future issues of the *Practicing CPA*. ☑

A Sole Practitioner Reflects on Changes

After reading the two-part article on individual practices in the *Practicing CPA* last year, I began reflecting on the changes that had occurred, over the years, in my own practice and in my relationships with clients. I practiced in partnerships for ten years but have been a sole practitioner since July 1984. As it happens, my life working solo coincides with the period covered by the study.

To begin with, tax returns have become much more complex. The data received from clients requires more time to analyze and organize for preparation of the actual return.

Nevertheless, in-house tax preparation software has eased the stress of preparing complex returns compared with previous service bureau arrangements. Immediate feedback makes tracking, review, and overall processing much easier. This allows more time for understanding the data and trying to improve the taxpayer's situation, and results in a product for which clients are willing to pay.

Issues arising in IRS audits have become more complex as well, and are often difficult to resolve at the examination level. This not only increases audit-related fees, but results in client annoyance with the whole process. This causes me more stress, as I am often the only contact with the IRS.

More of my time is now spent in tax planning for clients. This is mainly because of the increased complexity of the laws and the need to squeeze as much as possible out of the remaining tax options. The work is made easier by the availability of sophisticated planning software.

On occasion, clients seek the assistance of people holding themselves out as "planners," that often are people and organizations just selling products. The clients follow their advice, and then I have to decipher the required reporting on the tax return. Sometimes I have to assist a client in disengaging from a relationship that has become entangled with proprietary investment devices, including not-easily-disposed-of limited partnerships.

I find a growing number of clients have involvement with overseas operations and customers. Understanding the tax implications and overall red tape is burdensome, but the ability to manage relationships with correspondent accountants in foreign countries is a necessity and a new skill to learn.

All in all, the ability to stay current with continuing developments in tax, accounting, and audit areas has become more difficult. This situation, exacerbated by insurance and review costs, has caused me to withdraw from performing any audits, although this used to be my forte. Eventually, I may have to stop preparing financial statements, too, and concentrate solely on tax.

Another major change affecting my practice is clients' use of in-house computer systems. The availability of easy-to-use software results in more clients reducing their need for basic bookkeeping/accounting services and interim financial statements. (It has also resulted in my spending more time correcting their records.) Their ability to obtain some information almost instantaneously from their computer systems tends to make them conclude that when they do need my professional services, my response should be just as quick.

But as computer hardware and software costs have come down in price, so have clients' perceptions grown stronger that my fee for assisting them in the selection, installation, and implementation of the equipment should also decline. They don't comprehend that the increased complexity, sophistication, and number of products means more time must be spent evaluating the alternatives, selecting and recommending the best choices, and assisting in their proper implementation.

Advances in office equipment have changed another aspect of my practice. FAX machines and data supplied on diskettes have reduced the need and opportunity for face-to-face meetings with clients. Although electronic communication has been maintained, I have not actually seen some clients for over five years.

As a consequence of reduced personal contact, there is a greater need than ever to keep clients thinking of you by sending them meaningful newsletters and other literature. Although purchased newsletters may have the desired quality, they tend

New Consulting Services Report Available

The AICPA management consulting services division recently published a special report, "Microcomputer Communications," that presents an overview of communications between microcomputers and standard telephone lines via modems. It discusses various applications from the perspective of both client and CPA.

The report addresses microcomputer communications technology, including hardware and software, information services and bulletin boards, and the costs and security risks of microcomputer communications. It also contains illustrative exhibits and a bibliography.

To purchase "Microcomputer Communications" (product no. 048566, cost $14), call the AICPA order department, (800) TO-AICPA. Ask for operator PC.

to point out the *lack* of personal contact, rather than acting to replace it. As a busy sole practitioner, I find this situation difficult to resolve.

Some final thoughts about the changes in my practice over the last ten years should include the fact that off-season work is more difficult to acquire than it used to be. The hills and valleys of the revenue cycle are, thus, more dramatic.

Bank financing is also harder to obtain now, than it was ten years ago. Small companies have to self-finance or depend on loans from owners, families, and friends to a greater extent than in the past.

Increasingly, clients believe their accountant does not need to be paid on time. My receivables have more than tripled in the past three years, while revenue has only increased by about 30 percent.

With changes come opportunities, however, and I have on several occasions acted as external chief financial executive to clients in certain specific circumstances. While I don't make decisions, I provide the means by which negotiating parties can communicate with and understand one another. With this type of work, special care must be taken to maintain professional independence.

I don't know that the above identifies all the changes that have affected my practice in the last ten years, and I am certain I don't understand all the actions I need to take to protect my income in the years ahead. Perhaps other sole practitioners and small-firm partners have insights they would like to share. ☑

—by **John Trapani, CPA,** *8756 Encino Avenue, Northridge, California 91325, tel. (818) 701-6435, FAX (818) 349-4041*

Editor's note: Mr. Trapani says he would like to see a dialogue started in the pages of this publication concerning the issues facing sole proprietors. Readers are encouraged to comment on their experiences in running a small accounting practice during the last few years. Ideas for combating problems common to small practices are particularly welcome. Just jot down your thoughts and send them to the editor.

RMA Statement Studies Available

Robert Morris Associates (RMA) recently issued the 1993 edition of *RMA Annual Statement Studies.* This year's book, based on about 103,000 commercial borrowers' financial statements submitted to RMA by its participating member banks, provides a national financial profile of 406 industries identified by lines of business and SIC numbers.

The study contains the composite balance sheets and income data on industries in five categories: manufacturers, wholesalers, retailers, services, and contractors. It includes sixteen commonly used ratios, presented as medians and percentiles, except for the contractors, which have thirteen ratios. Information is organized by company asset size, from $500,000 to $250 million, and by sales volume. The data are also consolidated into an "all sizes" classification.

The 1993 *Statement Studies* contains three supplements: a comprehensive directory listing other sources of composite financial data for over 75 industries (including agricultural data), ratios for consumer and installment sales finance companies, and excerpts from the Construction Management Association's *Construction Industry Annual Financial Survey.*

Such comparative financial data are an important resource in performing trend analyses, determining credit policies, and showing clients how their financial positions compare with industry averages.

Robert Morris Associates, chartered in 1914, is the association of bank loan and credit officers. Copies of the 1993 *RMA Annual Statement Studies* can be purchased for $105 from the RMA customer service department, (215) 851-0585. ☑

An Item Worth Mentioning Twice

Firms are sometimes not aware of AICPA services and products that would meet their needs. The special supplement to this issue reports on the *Directory of AICPA Member Benefits and Services* that PCPS published last year to rectify this situation.

The *Directory* is a comprehensive guide to the services and programs available to all local and regional CPA firms. In addition to providing phone numbers for contacting professional support or technical assistance, the 32-page publication lists the AICPA affinity programs, which offer members discounts on office equipment, long-distance telephone service, express mail, insurance, rental cars, credit cards, and other valuable items. All in all, it's an item worth mentioning twice.

To obtain a complimentary copy of the *Directory of AICPA Member Benefits and Services,* just call the PCPS staff, (800) CPA-FIRM. ☑

A Special PCPS Supplement

Private Companies Practice Section Annual Report Fiscal Year from August 1, 1992 to July 31, 1993

In order to inform all local and regional CPA firms about PCPS activities, we've prepared this year's Annual Report as a special supplement to the *Practicing CPA*. We hope the following comments provide you with a good idea of our activities on your behalf and spark discussion on how we can better meet your needs.

As new chairman of the PCP Executive Committee (PCPEC), I invite you to share your comments and questions concerning this report and other professional matters. Just write to me, care of PCPS, at the Institute offices in New York.

We look forward to a terrific 1994.

J. Mason Andres, CPA

Overview

It's been a busy year for PCPS. Highlights of our efforts include raising awareness among practitioners and the small business community about the effects of legal liability and, through our Technical Issues Committee (TIC), working to standardize the way small businesses apply for bank loans.

To help us learn more about how practitioners perceive the value of their PCPS and AICPA memberships, we continued efforts begun last year to research our members' needs and concerns by conducting focus groups in four U.S. cities in the Fall of 1993. The results of these efforts will help guide our future activities and decisions.

Professional and future issues

In the professional and future issues arena, PCPS's goal is to anticipate and address the concerns of local practitioners and work to alleviate them.

Because legal liability is a major concern for CPA firms and their clients, PCPS undertook a variety of initiatives this year. In August 1992, we communicated with all member firms urging support of legislation aimed at providing legal relief for accountants from litigation filed under Rule 10b-5. We also mailed a position paper, "Essential Information About Legal Liability — And How Local CPA Firms Can Cope," to all PCPS member firms in May 1993. It described the scope of the problem and recommended defensive strategies for smaller CPA firms. In addition, to raise awareness within the small business community, we ran a major advertising campaign, under the headline "Small Business Has a Big Problem," in the *Wall Street Journal, INC., State Legislatures, Nation's Business,* and the *Journal of Accountancy.* As part of the campaign, we prepared an informational leaflet that discusses steps the accounting profession has taken to protect the public interest, and preventative measures for small business owners. The public response to these initiatives has been overwhelmingly positive. We believe our efforts contributed significantly to the debate on this important issue, especially by helping to dispel the belief that liability is only a national firm issue.

To raise the visibility of the small firm career option for college graduates, PCPS sponsored the attendance of ten accounting professors at the two National Accounting and Auditing Advanced Technical Symposia, held in June and July. Professors were nominated by members of various PCPS committees and chosen on the basis of their commitment to teaching undergraduates and their research in public accounting issues at the small business and private company level. The PCPS sponsorship program was well-received by the academic community. Because of this success, we will continue the program in 1994.

On technical issues, PCPS's goal is to ensure that the views and concerns of local practitioners and their small business clients are communicated to standard-setters and technical committees. This is accomplished through its Technical Issues Committee (TIC), which continues to grow in stature.

In conducting its advocacy efforts, TIC maintains active liaison with the Financial Accounting Standards Board, its governmental counterpart (GASB), and AICPA standard-setters, including the Auditing Standards Board, the Accounting Standards Executive Committee, the Accounting and Review Services Committee, and the Professional Ethics Executive Committee.

During the past fiscal year, TIC initiated a ground-breaking program with Robert Morris Associates (RMA) to develop a standardized set of forms, called the Business Credit Information Package (BCIP), that lenders could use to evaluate small business borrowers. The BCIP, introduced at RMA's annual conference in September 1993, can, at the lender's request, be used by borrowers that formerly submitted tax returns or non-disclosure compilations to banks when applying for loans. It benefits lenders, borrowers, and CPAs alike. Both TIC and RMA are encouraged by the banking industry's response to this new format and look forward to working on other joint projects in the future.

Also during the last year, TIC issued thirteen formal letters of comment and held numerous formal and informal discussions with standard-setters and other committees.

Communications and member services

In its member services capacity, PCPS provides firms with useful tools for practice management and quality control.

PCPS held its annual conference on May 2–5, 1993, at the Loews Coronado Bay Resort in San Diego, providing a good opportunity for members to network with peers and learn practice management techniques. Plans are now underway for the conference on May 1–4, 1994, at the Sheraton Bal Harbour Resort in Florida. Scheduled sessions for 1994 include Attracting New Clients with Specialized Areas of Practice, Applying New Standards and Pronouncements in Accounting and Auditing for Small Business Clients, and Making the Most of Advances in Technology.

PCPS also developed several brochures to help firms in their practice development. We published "101 Questions to Ask Your CPA," which suggests topics small business owners can discuss with their CPA, and "PCPS Membership: Your CPA Firm's Commitment to Quality," which describes to clients, bankers, attorneys, and other referral sources what PCPS membership signifies. Samples of both brochures were mailed to member firms. PCPS members can also order a range of popular marketing materials from Newkirk Publications at a substantial discount.

Firms are often not aware of existing AICPA services that would meet their needs. As a result, in the Spring of 1993, PCPS published the first-ever *Directory of AICPA Member Benefits and Services*, a comprehensive guide to the services and programs that are available through the AICPA to all local and regional CPA firms. In addition to providing phone numbers for contacting professional support or technical assistance, the 32-page *Directory* lists the AICPA's affinity programs, which offer members discounts on office equipment, long-distance telephone service, express mail, insurance, rental cars, credit cards, and other valuable items.

PCPS launches other communication efforts.

PCPS works to inform bankers, referral sources, and the general business press about issues of concern to members and the significance of using a PCPS member firm. To publicize the availability of its brochure, "101 Questions to Ask Your CPA," PCPS launched a major media campaign that has generated more than 1,500 news articles and spurred requests for more than 1,000 brochures. PCPS also publicized the "101 Questions" and "PCPS Membership: Your CPA Firm's Commitment to Quality" brochures in the accounting trade press.

In 1993, PCPS sponsored its fourth annual Small Business Survey, which monitors small business owners' views about the economy and the general business environment. The 1993 survey also asked respondents about their experiences with legal liability and its effect on their companies. Thus far, survey results have been covered in the *Wall Street Journal* and *Accounting Today*, as well as a televised interview on Cable Network News.

Membership growth and demographics

PCPS membership increased again this year, from 6,536 firms in July 1992 to 6,572 firms in July 1993. That's the highest membership in our sixteen-year history, a four-fold increase since 1987.

Our members come from a wide spectrum of geographic regions and types of practices, with the greatest number from smaller practice units in the profession. Currently, 43 percent of PCPS member firms are sole practitioners, 45 percent have two to five partners, and 12 percent have more than five partners.

Questions for the Speaker (Should all partners manage the firm?)

A participant at an AICPA practice management conference asked, "We are a six-partner, $3 million practice managed by a committee of all the partners: Any comments or thoughts about this arrangement?" Our editorial advisors respond.

W. Thomas Cooper, a Louisville, Kentucky, CPA, says, "This is a horrible situation. What a waste of energy and resources." At Mr. Cooper's seven-partner firm, partners meet twice a year—for one day in December and for a three-day planning retreat with recreational activities in June. Spouses do not attend. Mr. Cooper says the firm has a three-person executive committee which meets once in each of the remaining ten months. Only two of those meetings are all day face-to-face meetings. The others are telephone conferences that don't run for more than three hours.

Jake L. Netterville, a Baton Rouge, Louisana, practitioner, says too much time is being spent in the management and administration of the firm. He suggests the responsibility for managing the firm be delegated to one person or, at most, a consensus of two people.

Judith R. Trepeck, who practices in Farmington Hills, Michigan, thinks the firm should at least have a management team that meets every week. The full partnership could then limit its meetings to one a month.

Abram J. Serotta, an Augusta, Georgia, practitioner, thinks firms with six partners need a managing partner. He says management by committee is not only obsolete but inefficient. Mr. Serotta thinks the firm should meet on a quarterly basis to determine changes in philosophy, with an annual retreat to map out the philosophy, mission, goals, and strategic plan for the following year. Mr. Serotta says, "A managing partner would enforce such a plan." Mr. Serotta's final suggestion to the firm regarding its management is to allow the managing partner to manage.

Robert L. Israeloff, a Valley Stream, New York, CPA, says that to have a six-partner firm managed by a committee of all the partners that meets weekly is a waste of a lot of time. He believes every organization needs a leader, someone who can act in a responsible way on behalf of all the partners. He adds, "I think the firm in question should elect a managing partner who reports to all of the partners on a monthly basis." ☑

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